STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

SENTINEL SECURITY LIFE INSURANCE COMPANY

of

Salt Lake City, Utah

as of

December 31, 2009

TABLE OF CONTENTS

April 14, 2011

Honorable Neal T. Gooch, Acting Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Joseph Torti, III, Superintendent
Chair, Financial Condition (E) Committee, NAIC
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920

Honorable Christina Urias, Director
Secretary, Western Zone, NAIC
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2009, has been made of the financial condition and business affairs of:

SENTINEL SECURITY LIFE INAURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to in this report as the Company or SSLIC, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2007, through December 31, 2009, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Company's management at the initiation and conclusion of the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the Utah Insurance Department (Department) and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2009. Assets were verified and valued, and liabilities were determined or estimated.

The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and the control environment in addition to work performed by external audit functions. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

The Company retained the services of a certified public accounting firm, Larson & Company, to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work papers were relied upon when deemed applicable

Status of Prior Examination Findings

The last exam was completed as of December 31, 2006. Items of significance noted in the prior examination report summary were addressed by the Company during the examination period.

SUMMARY OF SIGNIFICANT FINDINGS

Assets not in compliance with Utah Code Annotated (U.C.A.) § 31A-4-108 in the amount of $1,961,280 were not admitted for the purpose of this examination report. The assets are classified under a qualified investment vehicle but were not held under a compliant custodial agreement. Since the amount is not significant as to produce a material impact in the Company's overall financial status, the Department does not recommend the Company re-file the annual statement for 2009. (COMMENTS TO FINANCIAL STATEMENTS)

SUBSEQUENT EVENTS

At the start of 2010, the Company revised its final expense product and introduced two new products marketed it under the names "New Vantage II" and "New Vantage III" The revised final expense product suite is called "New Vantage" and includes three plans that are included on the same application. The "New Vantage II" plan is a graded death benefit plan that pays 30% of the face amount if death occurs in year one, 70% of the face amount if death occurs in year two, and 100% of the face amount if death occurs in year 3 or later. The "New Vantage III" plan is a modified benefit plan that returns all of the premium paid plus 10% interest if death occurs in the first two years and 100% of the face amount if death occurs in year 3 or later. All three plans have tobacco and non-tobacco premiums; require a telephone interview at the point of sale; MIB verification; and random prescription database inquiries.

During the second quarter of 2010, the Company developed and began distributing five new Medicare Supplement and three new Medicare Select plans in states where it has gained approval. In 2011, the Company obtained licenses in the states of Florida and North Carolina but will only offer the Medicare Supplement product in Florida. American Insurance Administrators, LLC (AIA), a licensed non-resident third party administrator and non-resident producer organization will market these products on behalf of the Company. To mitigate overall exposure and anticipated expense strain associated with the Medicare supplement production, the Company ceded 90% of the new business to a large, prominent direct writer experienced in this line, Mutual of Omaha Insurance Company.

COMPANY HISTORY

General

The Company was organized in 1948 by a group of Utah funeral directors for the purpose of providing the public with an insurance product designed to help pay funeral costs at the time of need. Some of the original founders still serve the Company as members of the board of directors.

The Company began its operations as Sentinel Mutual Insurance Company. In 1954, the articles of incorporation were amended to change the Company to a capital stock insurer, and the name was changed to Sentinel Insurance Company. In 1957, the articles of incorporation were again amended to change the company's name to its present name of Sentinel Security Life Insurance Company.

Dividends and Capital Contributions

The Company paid ordinary dividends to its stockholders on April 1, 2009 in the amount of $478,570. Pursuant to U.C.A. § 31A-16-106(2) the dividends paid were not considered extraordinary.

Authorized common stock consisted of 500,000 shares with a par value of $7 per share as of December 31, 2009. The total common stock outstanding at December 31, 2006, was 359,526 shares, including 67,344 shares of treasury stock held.

U.C.A. § 31A-1-301(28)(d) states "There is a rebuttable presumption of control in a person who directly or indirectly owns, controls, holds with power to vote, or hold proxies to vote 10% or more of the voting securities of another person." Earl L. Tate, (Tate), owner of RAVAL Investment Company, (Raval) and Edward M. Grimm II (Grimm), majority shareholder of Analine Management Company, (Analine) each own shares of the Company. Through their direct and indirect ownership Tate and Grimm were both controlling persons of the Company in accordance with the definition stated in U.C.A. § 31A-1-301(30). Earl L. Tate is both a director and president of the Company, and Grimm is a director and the secretary.

CORPORATE RECORDS

A review of the minutes of the board of directors and stockholders meetings revealed conformity with the requirements of the articles of incorporation concerning matters covered and authorizations made. The minutes approved and supported Company transactions.

The previous examination report as of December 31, 2006, was distributed to the board of directors at the meeting held on May 20, 2008. The board of directors approved the minutes of that meeting on June 17, 2008.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of directors may be not more than twenty-five (25) or less than five (5).A.12.5

The following persons served as directors of the Company as of December 31, 2009:

Name	Principal Occupation	Residence
Thomas W. Bartlett	Chairman of the Board SSLIC	Salt Lake City, Utah
Earl L. Tate	President, Sentinel Security Life Insurance Company	Tooele, Utah
Edward M. (Pete) Grimm	Accountant	Salt Lake City, Utah
Alva R. Wing	Funeral Director (Retired)	Lehi, Utah
Charles W. Lindquist	Funeral Director (Retired)	Ogden, Utah
Richard E. Felt	Educator (Retired)	Brigham City, Utah
Lenard A. Wing	Funeral Director	Lehi, Utah
Thomas R. King	Attorney at Law	Salt Lake City, Utah

The Company's bylaws provide for officers to consist of President, Vice-President, Secretary and Treasurer.

The officers of the Company as of December 31, 2009, were as follows:

Principal Officer	Office
Earl L. Tate	President
G. Daniel Acker	Vice President
Edward M. (Pete) Grimm	Secretary

Committees and the respective committee members of the Company as of December 31, 2009 were as follows:

Audit Committee

Name and Location	Title and Principal Occupation
Charles W. Lindquist; Chair; Ogden, Utah	Funeral Director (Retired)
Richard E. Felt; Brigham City, Utah	Educator (Retired)
Lenard A. Wing; Lehi, Utah	Funeral Director
Thomas R. King, Slat Lake City, Utah	Attorney at Law

Compensation Committee

Name and Location	Title and Principal Occupation
Edward M. (Pete) Grimm; Chair; Salt Lake City, Utah	Accountant
Charles W. Lindquist; Ogden, Utah	Funeral Director (Retired)
Richard E. Felt; Brigham City, Utah	Educator (Retired)

Investment Committee

Name and Location	Title and Principal Occupation
Earl L. Tate; Chair; Salt Lake City	President, SSLIC
Thomas W. Bartlett, Salt Lake City	Chairman of the Board, SSLIC
Edward M. Grimm, Salt Lake City, Utah	Accountant

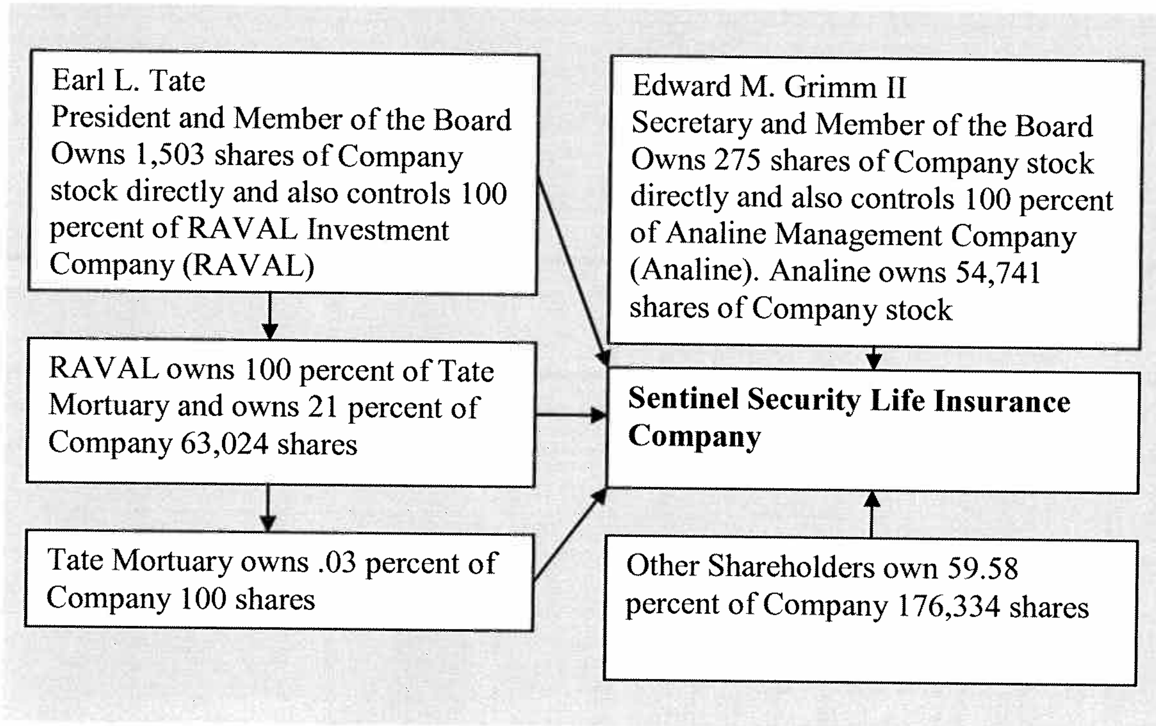
Nomination Committee

Name and Location	Title and Principal Occupation
Lenard A. Wing; Chair; Lehi, Utah	Funeral Director
Earl L. Tate; Salt Lake City	President, SSLIC
Alva R. Wing; Salt Lake City, Utah	Funeral Director (Retired)

Holding Company

The Company is directly and indirectly controlled by two individuals Earl L. Tate and Edward M. Grimm II according to the definition set forth in U.C.A. § 31A-1-301(28)(d), as they both owned more than 10% of the voting securities of the Company. On January 7, 2008, the commissioner approved a request from Earl L. Tate and Edward M. Grimm II for a waiver to file the audited financials for controlling entity with the Department. In lieu of such statements, the Department will accept the signed balance sheets and tax returns that were already filed with the Department. The waiver was granted for a period of one year with future annual extensions upon request of waiver from the ultimate controlling parties.

A Company organizational chart illustrating the holding company structure follows:



Transactions with Affiliates

The Company had neither ownership interest in, nor agreements with its affiliated companies.

FIDELITY BONDS AND OTHER INSURANCE

As of the examination date, the Company had fidelity bond coverage of $250,000 with a $0 deductible. The amount of fidelity bond insurance coverage recommended by the Financial Condition Examiners Handbook of the NAIC, for an insurer of the Company's size is between $300,000 and $350,000. Subsequent to the examination date and as of January 16, 2008, the Company increased its fidelity coverage to $350,000.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided a profit sharing plan to qualifying employees. The Company had an adoption agreement with a local bank whereby the bank served as trustee of the employee profit sharing plan. The plan and related trust or custodial account, according to an Internal Revenue Service letter, qualified under Section 401 of the Internal Revenue Code.

TERRITORY AND PLAN OF OPERATION

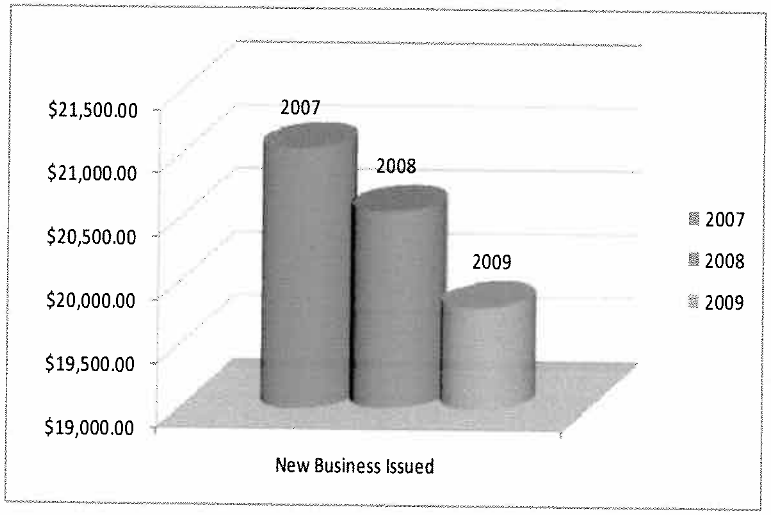
The Company was licensed to operate in 21 states as of December 31, 2009, namely: Arizona, California, Colorado, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Montana, Oklahoma, Nebraska, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming.

Historically, the Company's primary business profile has been limited to the final expense market. Net premium growth has been modest due in part to management's business strategy to grow gradually. Additionally, in spite of sales and marketing efforts throughout the states where it is licensed, almost half of its total net premium remains concentrated in the state of California, and a significant majority of its new business is generated in a limited number of states.

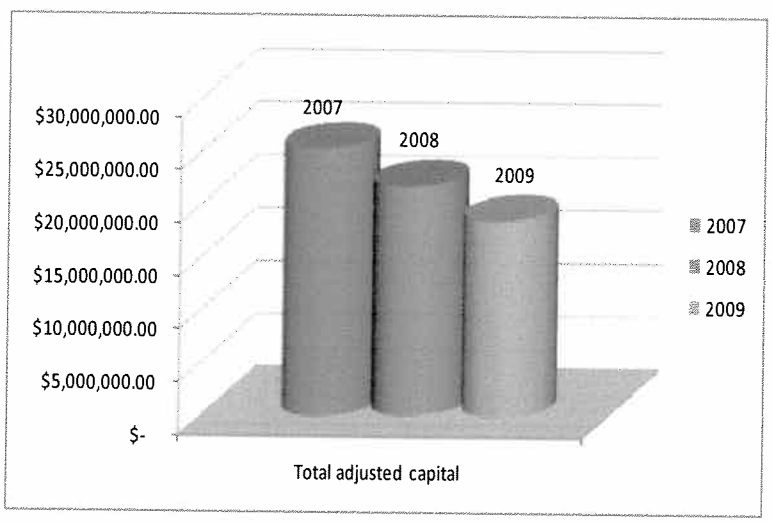
Insurance operations are conducted under a general agency plan through a field force of more than 200 personnel producing non-captive general and associated general producers. Sentinel Security Life's agency force is comprised of several top independent agents with long-term relationships. The Company continues to further develop its personal producing non-captive general and associated general producers' field force in those states where it does business. A direct mail program is used to provide prospective leads for the Company's field force. The Company has recently revised its lead program to more focused demographic parameters to limit mailings, lower advertising costs and improve closing ratios.

GROWTH OF COMPANY

The Company significantly updated its product lines in 2009. The Company revised its final expense products to include three main plans sold on the same application with revised health related questions as stated in the Subsequent Events of this report of examination. The Company offers a first day coverage plan, a graded death benefit plan, and a modified death benefit plan. The graded plan pays 30% and 70% of the face amount if the insured dies in year one or two, respectively, and 100% of the face amount in years three and later. The modified plan returns all of the premiums paid plus 10% interest if death occurs in the first two policy years and 100% of the face amount in years three and later. The change in product mix for the subsequent year is meant to lower the business risk to reduce the declining trend of the Company's new business issued.



Despite declines in the Company's total statutory capital the past two years, the Company continues to maintain a solid level of total adjusted capital in support of its insurance and investment risks. In 2008, the Company's total adjusted capital and surplus declined more significantly as unrealized investment losses in both its bond and common stock portfolios materially offset retained earnings. In 2009, total adjusted capital and surplus declined modestly as investment losses, primarily in its bond portfolio, were slightly offset by net operating gains.



MORTALITY AND LOSS EXPERIENCE

There were no significant items in this area.

REINSURANCE

Assumed:

The Company did not assume any reinsurance during the examination period.

Ceded:

Effective July 1, 2006, Optimum Re Insurance Company (Optimum Re), through a novation agreement, purchased the Company's business from Generali USA Life Reassurance Company (Generali). The novation agreement effectively substituted Optimum Re for Generali. During 2003, also through a novation agreement, the same business was purchased by Generali from Business Men's Assurance Company of America.

As of December 31, 2009, the Company reinsured its life insurance business under an agreement which provided automatic yearly renewable term life reinsurance on standard and substandard lives between the ages of 0 through 75 inclusively, up to a maximum of 400 percent of the Company's retention. It included provisions for waiver of premium and for facultative reinsurance.

The Company's retention limits under the automatic yearly renewable term life agreement were as follows:

Ages	Standard	Substandard Tables 1-3	Substandard Tables 4 - 5	Substantard Tables 6 – 16
All Ages	$15,000	$15,000	$12,000	$5,000 or 50% of the risk, whichever is lower

A bulk agreement with the same reinsurer provided for reinsurance on accidental death benefits with a retention on any covered accidental death benefit of $15,000.

Subsequently, the Company launched its Medicare product. To mitigate overall exposure and anticipated expense strain associated with the Medicare Supplement production, Sentinel Security Life will cede 90% of the new business to Mutual of Omaha Insurance Company. In addition, the company also entered into a new reinsurance agreement with Mutual of Omaha in 2010 to coinsure 50% of the New Vantage I fully pay product in anticipation of increased sales in future years.

ACCOUNTS AND RECORDS

As of December 31, 2009, the Company's accounting system consisted of a general ledger, registers, statistical and other records maintained primarily on information systems equipment and software. An IBM AS/400 minicomputer was utilized which is accessed through personal computers. The Company also utilized annual statement preparation software to account for all of its investments (Bonds, Common & Preferred stocks) and to prepare the investment related pages in its 2009 annual statement.

Investment income due and accrued for a mortgage loan the examination found to be in default should be non-admitted in accordance with Statement of Statutory Accounting Principles (SSAP) No. 37 paragraph 14. The examination verified the amount of the investment income due and accrued was not material; therefore no examination adjustment was made to the financial statements. In addition, the Company did not disclose in Note 5 in its annual statement that one loan was in default; having six months of delinquent payments as of December 31, 2009. The loan was in default; having more than 6 months of delinquent payments for that same mortgage loan as of December 31, 2010.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required to maintain a deposit in the amount equal to its minimum capital requirement. The minimum capital requirement is $400,000 as specified by U.C.A. § 31A-5-211 (2) (a). The special deposits maintained by or through regulatory agencies for the primary benefit of all policyholders, as of December 31, 2009, were as follows:

CUSIP NO.	PURCHASE DATE	SECURITY DESCRIPTION	MATURITY	PERCENTAGE OF COMPOSITION	MARKET VALUE
38376JBTO	11/13/2009	GNMA	11/1/2039	4.5	$ 481,615
743315AJ2	6/3/2008	Progressive Corp.	3/1/2029	6.62	255,115
5901884M7	8/6/2007	Merrill Lynch	5/16/2016	6.05	211,890
962166AW4	11/29/2006	Weyerhaeuser Company	10/1/2027	6.95	226,400
931142CH4	6/22/2007	Walmart	4/15/2027	5.875	262,045
912833LB4	10/24/2003	US Treasury Sec.	11/15/2020	0	624,400
					$2,061,465

Special deposits held through New Mexico Insurance Department not held for benefit of all policyholders, as of December 31, 2009, had a book value of $315,124 with a fair value of $312,813.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY
BALANCE SHEET (ASSETS)
as of December 31, 2009

ASSETS	**Net Admitted Assets Current Year**	**Notes**
Bonds	$ 21,009,199	
Preferred stocks	15,286,729	
Common stocks	2,966,043	(1)
First liens - mortgage loans on real estate	1,665,246	
Properties occupied by the company	186,514	
Cash	4,998,478	
Contract loans	1,022,237	
Subtotals; cash and invested assets	47,134,446	
Investment income due and accrued	361,130	
Uncollected premiums and agents' balances in the course of collectio	17,990	
Deferred premiums; agents' balances and installments	1,536,053	
Current federal and foreign income tax recoverable and interest	361,954	
Net deferred tax asset	455,438	
Electronic data processing equipment and software	36,663	
Furniture and equipment; including health care delivery assets	-	
Health care ($0) and other amounts receivable	82,507	
Aggregate write-ins for other than invested assets	(1)	
Total Assets	$ 49,986,180	

SENTINEL SECURITY LIFE INSURANCE COMPANY
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)
as of December 31, 2009

LIABILITIES AND CAPITAL	**Current Year**	**Notes**
Aggregate reserve for life contracts	$ 29,273,700	
Liability for deposit-type contracts	295,897	
Life (contract claims)	412,729	
Dividends apportioned for payment	20,000	
Coupons and similar benefits	700	
Premiums and annuity considerations for life received in advance	16,981	
Interest maintenance reserve	181,935	
Commissions to agents due or accrued-life and annuity contracts	102,155	
General expenses due or accrued	200,852	
Taxes; licenses and fees due or accrued; excluding federal income taxes	31,139	
Unearned investment income	23,517	
Amounts withheld or retained by company as agent or trustee	169,734	
Remittances and items not allocated	5,568	
Asset valuation reserve	819,279	
Total Liabilities	31,554,186	
Common capital stock	2,516,685	
Unassigned funds (surplus)	17,239,003	(1)
Less treasury stock, at cost: (67,314) Shares common (value included in common capital stock $471,411)	1,323,694	
Surplus	15,915,309	
Totals of common and preferred stock and surplus	18,431,994	(2)
Totals of liabilities; common and preferred stock and surplus	$ 49,986,180	

SENTINEL SECURITY LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2009

		Current Year
Premiums and annuity considerations for life and accident and health contracts	$	6,432,480
Net investment income		2,768,613
Amortization of Interest Maintenance Reserve (IMR)		11,624
Aggregate write-ins for miscellaneous income		3,160
Totals		9,215,877
Death benefits		2,867,679
Matured endowments		35,505
Annuity benefits		954
Disability benefits and benefits under accident and health contracts		1,367
Coupons; guaranteed annual pure endowments and similar benefits		715
Surrender benefits and withdrawals for life contracts		447,102
Interest and adjustments on contract or deposit-type contract funds		17,115
Increase in aggregate reserves for life and accident and health contracts		982,853
Totals		4,353,290
Commissions on premiums;		1,249,639
General insurance expenses		2,833,151
Insurance taxes; licenses and fees; excluding federal income taxes		278,426
Increase in loading on deferred and uncollected premiums		37,134
Totals		8,751,640
Net gain from operations before dividends to policyholders and federal income taxes		464,237
Dividends to policyholders		19,138
Net gain from operations after dividends to policyholders and before federal income taxes		445,099
Federal and foreign income taxes incurred (excluding tax on capital gai		88,810
Net gain from operations after dividends to policyholders and federal income tax		356,289
Net realized capital gains or (losses) [excluding gains(losses) transferred to the IMR less capital gains tax of $(252,237)]		(490,969)
Net income	$	(134,680)

SENTINEL LIFE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2007 through 2009

	2007	2008	2009	Notes
Capital and surplus; December 31; prior year	$ 22,543,750	$ 23,289,611	$ 20,678,552	
Net income	1,284,964	666,810	(134,680)	
Change in net unrealized capital gains (losses)	(100,528)	(3,538,726)	30,732	
Change in net deferred income tax	77,580	776,512	61,509	
Change in nonadmitted assets	(93,544)	(776,542)	(1,839,202)	(1)
Change in asset valuation reserve	123,898	831,817	167,183	
Change in treasury stock	(72,950)	(99,421)	(25,809)	
Cumulative effect of changes in accounting principles		-	(37,720)	
Dividends to stockholders	(473,558)	(471,511)	(468,570)	
Aggregate write-ins for gains and losses in surplus	(1)	2	(1)	
Net change in capital and surplus for the year	745,861	(2,611,059)	(2,246,558)	
Capital and surplus; December 31; current year	$ 23,289,611	$ 20,678,552	$ 18,431,994	(2)

COMMENTS ON FINANCIAL STATEMENTS

<u>(1) Common stocks</u> <u>$2,966,043</u>

Common stocks were decreased by $1,961,280 in accordance with U.C.A. § 31A-4-108 for examination purposes.

<u>(2) Capital and surplus</u> <u>$18, 431,993</u>

The Company's capital and surplus was determined to be $1,961,280 less than reported in the Company's annual statement as of December 31, 2009. The following schedule identifies the examination changes:

Description	Annual Statement Dr (CR)	Per Examination	Change in Surplus Inc. (Dec.)	Notes
Common stocks	$ 3,075,605	$ 2,966,043	($1,961,280)	(1)
Total Examination changes			(1,961,280)	
Total Capital and Surplus per organization	20,678,552	18,431,993	1,961,280	
Total Capital and Surplus per examination			$18,431,994	(2)

The Company's minimum adjusted capital requirement, pursuant to U.C.A. § 31A-5-211(2) (a) was $400,000. The Company reported total adjusted capital of $20,678,552.00 in accordance with U.C.A. § 31A-17-609 and had an authorized control level risk-based capital (RBC) requirement of $1,493,765 in accordance with U.C.A. § 31A-17-605.

SUMMARY OF RECOMMENDATIONS

1.) A total of $1,961,280.34 of assets in common stock were found to be not in compliance with U.C.A. § 31A-4-108. Since the amount is not significant as to produce a material impact in the Company's overall financial status, the Department does not recommend the Company re-file the annual statement for 2009. However, for the purposes of presenting the financial statements in this examination report, this amount shall be non-admitted.

2.) The Company should account for mortgage loans in default in accordance with SSAP No. 37. Per SSAP No. 37 paragraph 14. The Company is required to disclose that the mortgage loans in default in Note 5 of its annual statement filings.

ACKNOWLEDGEMENT

Scott Garduno, FSA, MAAA, of the actuarial firm of Taylor-Walker & Associates, Inc. performed the actuarial phases of the examination. Alan Gutierrez Arana, CISA, CRISC, INET+, of RSM McGladrey, Inc. performed the Information Technology phase of the examination. In addition, Hermoliva B. Abejar, AFE, Teresa Trusty, CPM, APIR, and Clarissa Crisp, APIR, CFE participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

Colette Hogan Sawyer, CPM, CFE, PIR
Utah Insurance Department